

Indirect Cost Recovery

1

USING FEDERAL FUNDS TO RECOVER “INDIRECT COSTS”

Wisconsin Department of Public Instruction

The “Cost” of Doing Business

3

Direct Costs

- Federal grants fund specific activities related to meeting the goals of the project
- Title I teacher in a Title I targeted assistance school

Indirect Costs

- Grant activities generate operational costs such as supervision and payroll, but are not directly related to conducting the grant activities

Wisconsin Department of Public Instruction

WHY ARE INDIRECT COST RATES NEEDED?

2

To provide a uniform method

- Funding indirect costs
- Charging indirect costs

To provide an equitable allocation of indirect costs across all projects

Wisconsin Department of Public Instruction

IMPORTANT DEFINITIONS

4

Indirect cost rate: a device for determining in a reasonable manner the proportion of indirect costs each program should bear

- It is a method for allocating indirect costs to projects
- The ratio between indirect costs (pool) and an equitable base

Wisconsin Department of Public Instruction

DEFINITIONS (cont'd)

5

- ***Direct costs:*** those costs that can be specifically identified with a particular final cost objective (for example a particular award)
- ***Indirect costs:*** those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective (overhead, G & A)

Wisconsin Department of Public Instruction

Types of Direct Costs

7

- Teacher salary /benefits
- Professional development
- Equipment
- Transportation
- Instructional materials
- Contracted services

Wisconsin Department of Public Instruction

Recovering Funds for Indirect Costs

6

- Indirect Cost Recovery: Acknowledgement by the Federal Government that federally funded programs incur more than just costs directly related to the project
 - Depends on federal grant type
 - Sub-recipient must have an established indirect rate
 - This rate / percentage can be applied against the federal grant to recover funds to offset it's operating costs
 - Outlined in the Uniform Grant Guidance (2 CFR §200.414)

Wisconsin Department of Public Instruction

General Management

8

Direct Costs

- Limited to one school, subject or phase of operation, including the supervision of
 - Instruction
 - Guidance
 - Attendance
 - Transportation
 - Student Services

Indirect Costs

- Benefits several activities and programs, including the performance of
 - Accounting
 - Payroll
 - Auditing
 - Personnel Management
 - Purchasing
 - Employee Relations

Wisconsin Department of Public Instruction

General Management

9

- **Superintendent Costs** - Not allowed as a direct cost on federal grants or recovered through indirect
 - Salary / benefits or any expenditures related to the operation of the Superintendent's office
- **Principal's Costs** – May be allowed as a direct cost on federal grants but always included as a direct cost in the restricted indirect rate calculation

Wisconsin Department of Public Instruction

UNALLOWABLE COSTS

11

Uniform Grant Guidance, Unallowable Activities:

- Organized fund raising
- Lobbying
- Lawsuits against the government
- Bad debts
- Contributions and donations
- Fines and penalties
- Entertainment
- Equipment and other capital expenditures

Wisconsin Department of Public Instruction

Direct or Indirect?

Can you determine actual costs generated by the program?

Certain indirect costs may be categorized as direct costs depending on how they are tracked:

- Bookkeeper
- IT Staff
- General supplies
- Copying / Printing
- Postage
- Phone

Wisconsin Department of Public Instruction

Establishing an Indirect Rate

12

- Two rates determined annually by DPI
 - DPI's Indirect Cost Plan
 - "Restricted" and "Unrestricted" rates
 - Based on audited financial data collected from the PI-1505 annual reports
- Department of Ed – Restricted Rates (lower)
 - Used for federal grants that have a supplement not supplant provision (34 CFR §76.563)

Wisconsin Department of Public Instruction

Restricted vs Unrestricted

13

Why the distinction?

- Certain Dept of ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds
- Supplanting? Ambiguous concept that does not allow the use of federal funds to 'replace' otherwise local funds for certain expenditures
 - ✦ Very difficult to prove this quantifiably

Indirect Cost Proposal

15

Formal plan and methodology for calculating rates on a consistent basis

- Organizational review
- Tying costs to functions
- Submission of plan to Cognizant Agency
- Federal Review
- Negotiation
- Issuance of Rate Agreement

Restricted vs Unrestricted

14

- Restricted rate is calculated by taking the unrestricted rate and modifying it so as to exclude certain maintenance and operation expenditures
- Both rates are calculated by DPI
- Most grants only allow restricted rate to be used due to non-supplanting regulations

Indirect Cost Proposal

16

What does this mean for Wisconsin schools?

- DPI establishes ICR plan for all districts
- DPI negotiates with Dept of ED
- Every 5 years the plan is resubmitted and new agreement is reached
- Available on DPI website:
 - ✦ <http://dpi.wi.gov/sfs/aid/federal/indirect-costs>

Types of Rates

17

- Provisional/Final
- Predetermined
- Fixed-Rate with Carry-forward**
- Temporary 'billing' rate

**Used by WI school districts

Establishing an Indirect Rate

19

- Current year's rate is based on the second preceding fiscal year's audited financial data
- Restricted Indirect Rate Calculation:

**FY 2013-14
Total Allowed
Indirect Costs
\$50,000**



**FY 2013-14
Total
Direct Cost Base
\$800,000**



**FY 2015-16
Restricted
Indirect Rate:
6.25%**

Fixed Rate with Carry-Forward Provision?

18

- The predetermined rate is an ICR applicable to a specified year (current fiscal year) based upon an ESTIMATE of current year costs
- Fixed Rate with Carry-Forward ICR is the same as a predetermined rate except the differences between actual and estimated costs are 'carried forward' and become part of the rate calculation currently

20

Establishing an indirect rate

*Costs that are considered **indirect** for the purpose of determining the restricted indirect rate*

**FY 2013-14
Total Allowed
Indirect Costs
\$50,000**

FUND 10

251 000 Direction of Business
252 000 Fiscal
259 000 Other Business Administration
260 000 Central Services

These functions include business operations, financial and property accounting, payroll, inventory control, information technology services

** NOTE – Restricted indirect rate calculation does not include utility costs

(21)

Establishing an indirect rate

*Costs that are considered **direct** for the purposes of determining the restricted indirect rate*

**FY 2013-14
Direct Cost
Base
\$800,000**

FUND 10, 20, 50, 72, 80, 90

100 000 Instruction
210 000 Support Services (SS) - Pupil
220 000 SS - Instructional Staff
230 000 SS - General Administration
240 000 SS - School Bldg Admin
255 000 SS - Facilities
256 000 SS - Transportation
258 000 SS - Internal Services
270 000 SS - Insurance
290 000 SS - Other Support
430 000 SS - General Tuition Payments

These functions include wages, benefits and other direct costs BUT the calculation excludes capital equipment purchases, retirement and termination payments.

Wisconsin Department of Public Instruction

Indirect rates for all districts (School Financial Services)

<http://dpi.wi.gov/sfs/aid/federal/indirect-costs>

Indirect Cost Rates

Indirect Cost Rate Computation for School Districts (printed March 2015)

- Indirect Cost Rates for 2015-2016 %

- Indirect Cost Rates for 2014-2015 %

- Indirect Cost Rates for 2013-2014 %

- Indirect Cost Rates for 2012-2013 %

- Indirect Cost Rates for 2011-2012 %

- Indirect Cost Rates for 2010-2011 %

- Indirect Cost Rates for 2009-2010 %

CESA/CCDEB/School District	Restricted Rate (%)	Unrestricted Rate (%)
Abbotsford (0007)	4.76	18.81
Adams-Friendship Area (0014)	4.17	13.74
Albany (0063)	2.26	9.28
Algoma (0070)	5.34	14.13
Alma (0084)	2.93	14.97
Alma Center (0091)	3.92	14.71
Almond-Bancroft (0105)	3.24	13.54

Wisconsin Department of Public Instruction

23

CALCULATIONS

(22)

DPI calculates rates for all districts

- For 2015-16, rates based upon audited 2013-14 Annual Report data
- Carry-forward provision is determined
- Form PI-1161 is submitted if adjustment to DPI calculations are requested
- May 31** is deadline for submitting adjustments
- DPI notifies districts of adjusted rates and posts to website in **early July**

Wisconsin Department of Public Instruction

Adjustments to Increase an Indirect Rate

(24)

- Initial calculation pulls expenditures from high level functions, not detail
 - Examples of what is included in 230 000:
 - 231 100 Board Members
 - 231 500 Legal
 - 231 700 Audit
 - 232 100 Office of the Superintendent
 - 232 900 Other District Administration

Wisconsin Department of Public Instruction

Expenditures that qualify as Indirect		Expenditures that qualify as Direct		Function 230 000 includes audit costs (231 700) which are indirect costs. If they stay in the direct cost base, the indirect rate is lowered
251 000	\$10,000	100 000	\$500,000	
252 000	\$10,000	256 000	\$100,000	
259 000	\$10,000	230 000	\$200,000	
260 000	\$10,000	258 000	\$100,000	
\$40,000		\$900,000		4.4%

Wisconsin Department of Public Instruction 25

Possible Adjustments	
<ul style="list-style-type: none"> • Legal Costs <ul style="list-style-type: none"> ○ Preparation of policy, interpretation of laws and regulations • School Census Costs • Audit costs • District Insurance <ul style="list-style-type: none"> ○ Liability ○ Property ○ Fidelity bond premiums ○ Worker's compensation • Unemployment compensation 	
Wisconsin Department of Public Instruction	

Expenditures that qualify as Indirect		Expenditures that qualify as Direct		The LEA can request an adjustment, moving the audit costs (example \$20,000) from the direct cost base to the indirect cost pool
251 000	\$10,000	100 000	\$500,000	
252 000	\$10,000	256 000	\$100,000	
230 000	\$20,000	230 000	\$200,000	
259 000	\$20,000			
260 000	\$10,000	258 000	\$100,000	Adjustment resulted in a 2.4% increase
\$60,000		\$860,000		6.8%

26

Indirect Cost Rate Adjustment, PI-1161					
http://dpi.wi.gov/sites/default/files/imce/forms/pdf/pod1161.pdf					
I. ACCOUNT ADJUSTMENTS (Optional)					
Some General Funds costs can be considered both restricted and unrestricted indirect costs. Refer to detailed instructions in Local Educational Agency Indirect Cost Plan.					
Account Code	Account Name	Indirect Restricted	Indirect Unrestricted	Direct Cost	Excluded Cost
10 - 231 700	Audit	\$ 20,000	\$20,000	(\$20,000)	\$0
27 - 252 000	Fiscal	(\$ 5,000)	(\$ 5,000)	\$ 5,000	\$0
Total Adjustments		\$ 15,000	\$15,000	(\$15,000)	\$0

28

We have an indirect rate...now what do we do with it?

How do we report that our bookkeeper is paid with indirect funds?

What function is indirect?

Independent Charter School Applicability

31

- Independent Charter Schools are considered LEAs and, therefore, are covered by the current approved WI Indirect Cost Plan with the Dept of Education
- The 10% de minimus rate provision in the Uniform Grant Guidance will not apply
- Any Independent Charter Schools electing to utilize indirect costs will need to contact DPI to calculate rates

Why Claim Indirect?

30

- Costs that are by nature indirect should be covered by the indirect cost recovery – no time & effort requirement and does not restrict what the individual works on.
- Assists in reducing the amount of federal funds carried across fiscal years.
- Provides the LEA relief for indirect costs that are generated by supporting the large federal programs.

IDEA Budget (FT, PS, CEIS)

Budget Menu → Submit/Lock Budget Page → Summary Report

Personnel → Purchased Services → Non-Capital Objects → Capital Objects → Insurance → Other Objects → Indirect

Amount budgeted for Flow-Through (excludes indirect):	\$576,615
Amount excluded from indirect calculation - Capital Objects:	\$6,000
Amount excluded from indirect - Contract Amounts > \$25,000:	\$0
Amount against which indirect costs may be calculated(Base):	\$570,615
Restricted Indirect Rate:	3.6700 %
Maximum Indirect Amount available:	\$20,942
Available funds not currently allocated:	\$4,565
Amount to Budget for Indirect Costs:	\$9,000
Effective Indirect Rate (Indirect Budgeted / Base Cost):	1.5772 %
Indirect Claimed to Date:	N/A

Title I-A

33

Step 1: Title I-A Budget Menu “Plan Reservations: Enter Reservations Amounts”

Estimated Indirect Costs	
Indirect Costs (Click Here to estimate indirect costs for entire budget.):	\$ <input type="text" value="0"/>

↑

Total Budget (Allocation and Carryover): 668,987

Maximum percentage available for indirect costs: 2.86 %

ESTIMATED maximum amount available for indirect costs for \$19,133 entire budget:

Wisconsin Department of Public Instruction

Title II-A Budget

Budget Menu --> Submit/Lock Budget Page --> Personnel --> Purchased Services --> Non-Capital Objects --> Insurance --> Other Objects --> Indirect Costs --> Summary Report --> Submission History --> Title II Transferred Funds Budget Summary

Direct and Indirect Administrative Cap

Allocation - T2 Transfer:	\$337,695.00
Cap for indirect and direct administrative costs combined:	5.000 %
Maximum amount to be claimed for indirect and direct administrative costs combined:	\$16,884.75
Amount budgeted for direct administration:	\$2,500.00
Remaining amount available for direct administrative and indirect costs:	\$14,384.75

Indirect Costs

Amount budgeted (excludes indirect):	\$332,195.00
Amount excluded from indirect calculation: Capital Objects:	\$0.00
Amount excluded from indirect: Contract Amounts > \$25,000:	\$0.00
Amount against which indirect costs may be calculated (Base):	\$332,195.00

Restricted indirect rate:	3.290 %
Base * Restricted Indirect Rate:	\$10,929.22
Maximum amount available to budget for indirect costs:	\$10,929.22
Amount to Budget for Indirect Costs:	<input type="text" value="\$8,000.00"/>
Effective Indirect Rate (Indirect Budgeted / Base Cost):	2.408 %
Indirect Claimed to Date:	\$0.00

<http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-II.pdf>

Title I-A Budget

Budget Menu --> Submit/Lock Budget Page --> Personnel --> Purchased Services --> Non-Capital Objects --> Capital Objects --> Insurance --> Other Objects --> Indirect Costs --> Summary Report --> Submission History --> Title II Transferred Funds Budget Summary

Amount budgeted (excludes indirect):	\$660,048
Amount excluded from indirect calculation: Capital Objects:	\$5,000
Amount excluded from indirect: Contract Amounts > \$25,000:	\$0
Amount against which indirect costs may be calculated (Base):	\$655,048

Restricted Indirect Rate:	2.86 %
Maximum Indirect Amount available:	\$18,734.37
Available funds not currently allocated:	\$1,939
Amount to Budget for Indirect Costs:	<input type="text" value="\$7,000.00"/>
Effective Indirect Rate (Indirect Budgeted / Base Cost):	1.069 %
Indirect Claimed to Date:	\$0.00

<http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf>

Title III-A Budget

Budget Menu --> Submit/Lock Budget Page --> Personnel --> Purchased Services --> Non-Capital Objects --> Capital Objects --> Insurance --> Other Objects --> Indirect Costs --> Summary Report --> Submission History

Direct and Indirect Administrative Cap

Allocation:	\$76,530.00
Cap for indirect and direct administrative costs combined:	2.000 %
Maximum amount to be claimed for indirect and direct administrative costs combined:	\$1,530.60
Amount budgeted for direct administration:	\$900.00
Remaining amount available for direct administrative and indirect costs:	\$630.60

Indirect Costs

Amount budgeted (excludes indirect):	\$116,326.00
Amount excluded from indirect calculation: Capital Objects:	\$2,000.00
Amount excluded from indirect: Contract Amounts > \$25,000:	\$0.00
Amount against which indirect costs may be calculated (Base):	\$114,326.00

Restricted indirect rate:	3.290 %
Base * Restricted Indirect Rate:	\$3,761.33
Maximum amount available to budget for indirect costs:	\$630.60
Amount to Budget for Indirect Costs:	<input type="text" value="\$630.00"/>
Effective Indirect Rate (Indirect Budgeted / Base Cost):	0.551 %
Indirect Claimed to Date:	\$0.00

<http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-III.pdf>

First Step:

Account Code	Account Name	Approved Budget	Unliquidated Encumbrances (Payables)	Previously Disbursed	This Claim	Total Disbursements	Unencumbered Balance
27-100-152000-347	Early Childhood	\$2,000.00	\$0.00	\$2,000.00	\$0.00	\$2,000.00	\$0.00
27-200-152000-347	Early Childhood	\$1,200.00	\$0.00	\$1,200.00	\$0.00	\$1,200.00	\$0.00
27-300-152000-347	Early Childhood	\$1,051.00	\$0.00	\$20.00	\$0.00	\$20.00	\$1,031.00
27-400-152000-347	Early Childhood	\$1,202.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,202.00
Total		\$5,453.00	\$0.00	\$3,220.00	\$0.00	\$3,220.00	\$2,233.00

If budgeted, indirect will be automatically calculated on next screen. Rate applied will be 2.659 % (adjusted for prior claims).

The 2.659% is the *effective* indirect rate established in the last approved budget

Second Step:

Account Code	Account Name	Approved Budget	Unliquidated Encumbrances (Payables)	Previously Disbursed	This Claim	Total Disbursements	Unencumbered Balance
27-100-152000-347	Early Childhood	\$2,000.00	\$0.00	\$2,000.00	\$0.00	\$2,000.00	\$0.00
27-200-152000-347	Early Childhood	\$1,200.00	\$0.00	\$1,200.00	\$0.00	\$1,200.00	\$0.00
27-300-152000-347	Early Childhood	\$1,051.00	\$0.00	\$20.00	\$0.00	\$20.00	\$1,031.00
27-400-152000-347	Early Childhood	\$1,202.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,202.00
	Indirect Costs	\$145.00	\$0.00	\$0.00	\$85.62	\$85.62	\$59.38
Total		\$5,598.00	\$0.00	\$3,220.00	\$85.62	\$3,305.62	\$2,292.38

Indirect was added. Rate applied was 2.659 % (adjusted for prior claims).

37

Coding Indirect Recovery in Fund 27

39

For flow-through and preschool

Record Indirect Revenue Received from DPI

Fund	Type	Object / Source	Function	Debit	Credit
27	B		711 100	\$XX.XX	
27	R	730			\$XX.XX

Record Indirect Cost Transfer Between Funds

Fund	Type	Object / Source	Function	Debit	Credit
27	E	810	418 000	\$XX.XX	
27	B		711 100		\$XX.XX

10	B		711 100	\$XX.XX	
10	R	127	418 000		\$XX.XX

Wisconsin Department of Public Instruction

Coding Indirect Recovery in Fund 10

38

For Title I, II, III, CEIS and Title I Schoolwide Set-Aside

Title I-A expenditures in Fund 10, Project 151		Title I-A revenue in Fund 10, Source 751	
120 000 (100)	\$75,000	751	\$105,000
120 000 (200)	\$25,000		
E: \$100,000		R: \$105,000	

The \$5,000 difference between grant expenditures & revenue reflects the indirect recovery

Wisconsin Department of Public Instruction

Charging Bookkeepers as a Direct Grant Cost

40

Allowed for some grants (such as IDEA) – if the individual keeps appropriate time and effort records.

BUT

If the LEA plans to claim indirect recovery, and the LEA charged a normally indirect cost as a direct cost on the grant in the year the indirect rate is based, the LEA is required to report an adjustment and subtract the amount of costs charged to the federal grant from the indirect cost pool.

Wisconsin Department of Public Instruction

Expenditures that qualify as Indirect		Expenditures that qualify as Direct		The LEA must request an adjustment, moving the bookkeeper costs (example \$10,000) from the indirect cost pool to the direct cost base
251 000	\$10,000	100 000	\$500,000	
252 000	\$30,000	252 000	\$5,000	
259 000	\$20,000	230 000	\$100,000	
260 000	\$10,000	258 000	\$100,000	
\$60,000		\$706,000		Adjustment resulted in a 0.08% decrease
				90%

Wisconsin Department of Public Instruction 41

Recovering Indirect through the Federal Grant Budget Software

IDEA, Title I, II and III

Technical Assistance Documents with step-by-step instructions, including screen shots:

IDEA: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-idea.pdf>

Title I: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf>

Title II: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-II.pdf>

Title III: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-III.pdf>

Wisconsin Department of Public Instruction 43

Indirect in WISEgrants

42

- Similar to the current application for the method of budgeting indirect.
- For claiming, LEAs will be able to control the amount of indirect requested each claim, up to the eligible amount generated. LEAs will also have the option of reversing an indirect amount previously claimed (and moving the claimed amount to another direct line item).

Wisconsin Department of Public Instruction

Technical Assistance

School Financial Services Indirect Page:
http://sfs.dpi.wi.gov/sfs_indirect

Gene Fornecker, 608/267-7882
eugene.fornecker@dpi.wi.gov

Federal Grant Indirect Overview:
<http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-fed.pdf>

Wisconsin Department of Public Instruction 44